Testimony of

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Mr. Chairman and Members of the Subcommittee, my name is Joel Parker and I am Special Assistant to the President and International Vice President of the Transportation Communications International Union, as well as a Member of the Board of Trustees of the National Railroad Retirement Investment Trust. I appreciate the opportunity to discuss with you the progress of the National Railroad Retirement Investment Trust. I will focus my remarks on the Trust's investment strategy and performance.

Fiscal Year 2002 - Establishing the Investment Framework

The Railroad Retirement and Survivors' Improvement Act of 2001 provided for the transfer of approximately $20 billion in railroad retirement system funds to the Trust for investment in a diversified portfolio similar to other large US pension plans.

Early in the process of establishing the Trust, the Board of Trustees met with leaders of some of the largest corporate and Taft-Hartley pension funds in the United States, soliciting their advice on staffing and advisor structures, investment philosophies, and implementation strategies. The advice we received and which we have followed, was to build a strong in-house capacity to develop and manage the Trust's investment strategy rather than rely on outside advisors.

As a first priority, the Trust conducted a detailed asset-liability study of the railroad retirement system to assess the Trust's projected funding obligations and alternative approaches to asset allocation in order to facilitate the development of the statutorily mandated investment guidelines. Based on the asset-liability study, the Trust developed and in August of 2002 adopted a set of Investment Guidelines. At the same time, after an extensive search process, the Trust retained Northern Trust as its master custodial institution to hold the Trust's assets and to coordinate relationships with investment managers.

The Trust recognized that it would not be possible to immediately diversify the Trust's assets into the full array of asset classes set forth in the Guidelines. As a result, the Trust adopted an initial strategy of placing its assets in indexed accounts in three broad classes: domestic equities (45%), international equities (20%) and fixed income (35%). Indexation allowed us to diversify the Trust's investment exposure quickly and cost-effectively as it received railroad retirement system funds. With these arrangements in place at the end of fiscal year 2002 which ended September 30, 2002, the process of moving railroad retirement system assets to the Trust and investing them could begin.

Fiscal Year 2003 - First Year of Investment Activity

Working with the Railroad Retirement Board and the Treasury Department, the Trust developed a schedule for transferring railroad retirement system assets held by the Treasury over a period of approximately six months, beginning early in fiscal year 2003. When the final scheduled transfer took place in mid-March of 2003, the Trust had received a total of $19.3 billion of railroad retirement system assets.

During 2003, the Trust undertook a major planning process to develop a plan to move its investment portfolio beyond indexed-only investments. In the course of this process, the Trust reviewed a variety of investment strategies and methodologies to determine how active management could add value to expected returns at reasonable levels of risk. The product of this effort was an Investment Plan and Procedures Manual that identified the investment thesis, portfolio structure, performance benchmarks, and return and risk expectations for the Trust's entire portfolio and for each asset class. The Investment Plan includes a target for the level of the Trust's diversification within each asset class between indexed and actively-managed assets based on an assessment of the potential for active management to add value to expected returns at reasonable levels of risk. The Investment Plan is an internal working document subject to on-going review by the Trust to ensure its assumptions reflect the ever-changing investment environment.

Investment performance for the Trust's major asset classes was positive for fiscal year 2003, the first year of investment activity for the Trust. The Trust achieved overall performance returns of 19.9%, compared to its target index return of 18.8%. In fiscal year 2003, the full year performance return resulted in an increase of $2.7 billion in the Trust-managed portfolio as of September 30, 2003.

Fiscal Year 2004 - Expanding beyond Indexed Investments

Implementation of the Investment Plan began in fiscal year 2004. In US equity, the Trust's goals are a portfolio that combines indexation and active management in order to achieve performance in excess of the market at reasonable levels of risk. Execution of the US equity portion of Investment Plan focused primarily on large-capitalization enhanced indexation strategies whose performance tracks relatively closely with that of their benchmark index while adding modest value. In fiscal year 2004, the Trust hired active managers both in domestic large capitalization strategies and in large-cap value strategies.

For fixed income assets, the Trust hired three enhanced index bond index managers. As in equity, these managers take small and carefully calculated deviations from the index portfolios, aiming to add modest performance over the index without incurring significant risk.

In addition, under the investment guidelines and the Investment Plan, five percent of the overall Trust portfolio, to be funded from the 45 percent US equity allocation, was designated for private equity investments. In fiscal year 2004, the first private equity commitments were made and funded out of the US equity index investments.

Also during fiscal year 2004, the Trust performed a multi-phased asset allocation study to re-examine assumptions about return and risk in different asset classes in order to determine whether the Trust's asset allocation policy should be updated to improve potential returns and portfolio diversification. As a result of this new study, the Trustees authorized the investment staff to examine strategies in three new asset classes, real estate, commodities and hedge funds. Work continues in these areas, but no funds have yet been allocated to these asset classes.

For twelve months of fiscal year 2004, the investment return on all Trust-managed assets was 13.3%. This compared favorably with the Trust's composite benchmark, which returned 12.7%. At the end of FY 2004, assets overseen by NRRIT totaled $25 billion, and the total value of railroad retirement system assets, including those held in the RRB accounts at the Treasury, was $26.4 billion.

Fiscal Year 2005 - Expansion of Actively Managed Investment

During fiscal year 2005, continued diversification away from indexation in most major asset classes resulted in retaining 21 new managers during the fiscal year. At year end, 34% of the Trust investments were actively managed by more than 40 investment managers.

With respect to US equities, the Trust focused primarily on active large-capitalization strategies during fiscal year 2005 adding managers in several segments of this asset class.

During fiscal year 2005, the Trust's continued to manage its non-US equity investments through investment in indexed funds, but during this period, the Trust adopted the non-US equity portion of its Investment Plan and took steps to begin adding enhanced index strategies.

The Trust also continued moving beyond indexation in fixed income assets during fiscal year 2005, retaining additional active managers. In private equity, the Trustees approved investments in nine additional private equity limited partnerships.

For fiscal year 2005, the investment return on Trust-managed assets was 14.0%. This compared favorably with the Trust's composite benchmark, which returned 13.0%. At fiscal year-end, the net asset value of assets overseen by the Trust totaled $27.7 billion, and the total value of railroad retirement system assets, including those held at the Treasury, was $29.0 billion.

Summary

From its inception in February 2002 to September 30, 2005, the Trust received $21.3 billion from the Treasury and transferred $2.7 billion back to the Treasury. The net book value of funds received from the Treasury since inception, therefore, is $18.6 billion.

The assets received by the Trust were invested in a diversified multi-asset class portfolio in accordance with the Trust's investment policy. This diversification of assets has allowed the Trust's assets to grow significantly beyond their original book value. As of September 30, 2005, the net asset value of the Trust-managed assets totaled $27.7 billion, representing an increase of $9.1 billion above the net book value of assets transferred to the Trust for investment.

At the end of the most recent quarter, March 31, 2006, the net asset value of assets overseen by the Trust totaled $28.9 billion. The total value of railroad retirement system assets stood at $30.3 billion, about $10 billion more than the total value of assets held by the system at the time the Trust began its investment activities. This $10 billion increase is net of an additional $3.2 billion transferred from the Trust to the Treasury for benefit payments during this period.

Mr. Chairman, we believe the Trust has provided the kind of value to the railroad retirement system and its beneficiaries that was envisioned by the authors of the legislation that created this new and unique structure. We appreciate that the early years have been good ones for the financial markets and the Trust. We also recognize that markets have their cycles. Our goal has been to (i) establish a solid professional organization, (ii) develop a prudent investment plan that provides for a broad diversification of assets, and (iii) take steps to judiciously implement this plan. We believe that this three-pronged approach will serve us well in strong markets and also help to maintain stability in more challenging times.

I would be pleased to respond to any questions you may have.